



# GAO report: looking for the real troll

The findings of a US government study into NPEs took aim at the USPTO, software patents and the courts that enforce them, *not* NPEs themselves, Matthew L Cutler reports

**As a tidal wave of attention and criticism, from legislative, judicial, and national press sources, continued to be heaped on 'non-practising entities' (NPEs), the Government Accountability Office (GAO) recently tossed out a life preserver, in the form of its study on the consequences of patent litigation by NPEs.**

This long-anticipated report was expected to be the latest salvo in a relentless attack against NPE activities, but instead was a more muted assessment of the damage being done by NPE patent litigation.

While patent litigation is certainly trending higher, the GAO report found that NPEs were only a part of the problem. The majority of the blame for any uptick in litigation, per the report, should be centred on the United States Patent and Trademark Office (USPTO) (for issuing bad patents), the US court system (for issuing overly large damage awards), and even simple capitalistic instinct (which has sniffed out the high value of patents). But, the GAO report also praises the USPTO and courts for recently implementing significant changes that, at the least, hold great promise.

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In short, and as discussed below, the issues that have led to an over 30% increase in lawsuits filed from 2010-11, versus the 10-year period that preceded 2010, are varied and complicated. So are the possibilities for returning patent litigation to the mean. Ultimately, however, the GAO report finds that it is the software patents being issued, not the type of litigants enforcing them, which hold the key to reining in the growth in patent infringement litigation.

### **Born in the AIA: 4 key objectives**

The report itself acknowledges that “[p]ublic discussion surrounding patent infringement litigation often focuses on the increasing role of NPEs”. This discussion has risen to a cacophony over the past several years and was a serious driver in the effort, after many years of failed

attempts, to finally institute significant change in the Patent Act. Indeed, the America Invents Act (AIA), enacted on 16 September, 2011, improved upon many long-standing issues in the patent world, but took serious aim at NPE litigation activity, not the least of which in the form of a new joinder provision and the institution of more patent challenger-friendly post-grant review proceedings.

Evidence of the congressional intent to understand and, if necessary, undermine NPE litigation activity is Section 34 of the AIA, which directed the US Comptroller General to conduct a study of the consequences of patent litigation by non-practising entities. While the AIA required six topics to be included in the study, the GAO distilled its mission to four key objectives:

- What is known about the volume and characteristics of recent patent litigation activity;
- The views of stakeholders knowledgeable in patent litigation on what is known about the key factors that have contributed to recent patent litigation
- What developments in the judicial system may affect patent litigation; and
- What actions, if any, has PTO recently taken that may affect patent litigation in the future.

As discussed below, with these objectives guiding its analysis, the GAO confirmed an upward trend in patent litigation activity, but instead of placing blame at the feet of NPEs, the GAO report focused on past failings of the USPTO and the court system, but also pointed out significant advances by both entities to right the ship.

### **What is all the fuss about?**

To a certain extent, the need for further investigation of NPE litigation activity is borne out in the numbers uncovered by the GAO in its investigation. For example, as compared to the 10-year period of 2000-2010, litigation filings from 2010-2011 were up 31% (900 more filings than the average of the previous 10-year period). More striking, in the years 2007-2011, the number of defendants involved in patent litigation was up almost 130%. The source of this increase was the playground of NPEs – software patents. Some 89% of the increase in litigation was attributable to software-related patents.

But, for each of these grim statistics, the GAO report offers an excuse. The spike in litigation filings is attributed to the known changes

to the joinder rule then anticipated in the AIA. Pre-AIA, plaintiffs could join as many defendants as it wished in a single lawsuit, arguing that each was properly joined in light of the infringement of a common patent(s). This generated significant cost savings for plaintiffs, especially NPEs, who sued 4.1 defendants per complaint versus 1.9 defendants in the average complaint filed by an operating company. As the joinder provision of AIA came closer to reality, plaintiffs hurried their filings so that they could avoid the new joinder provision which would typically require them to file separate lawsuits for each defendant.

The sharp increase in litigation defendants was attributed to the fact that the US is going through a period of "rapid technological change". During such periods, new industries result in increased patent filings and with more patents to be enforced, litigations lawsuits naturally rise, as well.

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### The role of district courts

One of the key problems identified by the GAO report as contributing to the increase in patent litigation activity was the potential for disproportionately large damage awards, which can, of course, motivate patent owners to file lawsuits. This threat of a large award, plus the legal fees incumbent in any litigation, can be leveraged by plaintiff, even if the underlying substantive case is weak. Some targeted defendants, the GAO report found, "prefer to settle lawsuits before trial for smaller amounts of money rather than risk having to pay large damage awards and legal fees."

The GAO did identify significant improvements in these areas, but recognised it may be too early to gauge the impact in practice. For example, in 2011, the Federal Circuit overturned the long-standing 'rule-of-thumb' in damage cases known as the '25% rule'. Per that damage theory, a plaintiff would argue that an alleged infringer would pay a royalty equivalent to 25% of the expected profits for the product that incorporates the patent at issue. Having no real tie to the value of the patent, or the contribution of the patented technology to the product at issue, the 25% rule led to damage awards that were oversized and unjustified.

The GAO also commended additional efforts to improve patent litigation that may help bring more certainty to the process. For example, it spoke highly of the pilot programme in 14 district courts to create a cadre of judges who have advanced knowledge of patent cases in view of increased experience handling such cases. It also praised the new e-discovery rules in the Federal Rules of Civil Procedure as helping control costs in patent litigation. Lastly, the GAO recognised that recent Federal Circuit and Supreme Court decisions will continue to affect behaviour moving forward.

In the end, more work may need to be done regarding the way damages are calculated to accurately reflect a patent's value and

diminish the possibility of disproportionately large damage awards. After identifying damage awards as a key driver of increased patent litigation, though, the GAO acknowledged some progress has been made.

### The role of the patent office

The more significant scrutiny regarding the increase in patent litigation, however, was saved for the USPTO and its past propensity to issue overly broad and vague software patents. When the patent prosecution process fails to provide adequate notice regarding the patent's scope, uncertainty ensues that typically must be resolved in court. The reasons for the overly broad, unclear, and vague nature of patents is varied: (1) unclear terminology leads to a lack of understanding of patent claims; (2) functional claiming – where the entire function, rather than the means for performing the function, is claimed – allows patent owners to sue for patent infringement for future technologies that their invention could not have been intended to cover, or when the patent may only cover a small improvement; (3) broad patents on concepts make it easy to infringe on patents without intending to do so; and (4) unclear boundaries, non-uniform terminology, and the sheer volume of software patents make it difficult for operating companies who intend to launch a new product to perform competent searches for patents to ensure there will be no future infringement.

The onus, per the GAO, is on the USPTO to continue to improve its processes to solve the above issues. The GAO did, however, commend the office on a number of improvements already instituted.

First, in 2011, the USPTO issued supplemental guidelines regarding compliance with the definiteness requirement, and implemented examiner training on how to enforce them. Secondly, the USPTO entered into a partnership with the software industry to develop more uniform terminology to improve the quality of software-related patents. Thirdly, the USPTO is working to implement a new patent classification system that will allow for more competent patent searches. Fourthly, the USPTO is seeking greater transparency regarding patent ownership and is considering a requirement that patent ownership be updated and verified at certain times in a patent's life.

The GAO's ultimate, and sole, recommendation also fell squarely on the USPTO's shoulders – "consider examining trends in patent infringement litigation, including the types of patents and issues in dispute, and to consider linking this information to internal data on patent examination to improve the quality of issued patents and the patent examination process."

### It's the patent, not the litigant

Moving the spotlight off of NPE activity and onto USPTO efforts to improve patent quality is sure to make the GAO no friends in the high technology community. Having been commissioned by Congress, these findings will have to have an impact on congressional action, or inaction. Having had the wind taken from their sales, NPE foes will need to regroup to regain the momentum that had been building to take another run at NPE litigation reform.

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